

FISCAL NOTE

Bill #: HB0703

Title: Revise method of determining value of railroad systems for property tax purposes

Primary Sponsor: Bergren, B

Status: As Introduced

Sponsor signature

Date

David Ewer, Budget Director

Date

Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
General Fund	\$0	\$0
Revenue:		
General Fund	\$0	\$1,548,000
State Special Revenue	\$0	\$97,000
Net Impact on General Fund Balance:	\$0	\$1,548,000

- | | |
|---|---|
| <input checked="" type="checkbox"/> Significant Local Gov. Impact | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

1. Under current law, the assessed value for a centrally assessed railroad is calculated by multiplying the previous year's assessed value by a statutorily defined change factor. The change factor is a weighted average of an income change factor weighted 50%, a gross profit change factor weighted 25%, and a property change factor weighted 25%.
2. This bill would add another calculation to the process. A freight rate factor would be calculated. The freight rate factor would be the ratio of average agricultural freight rates in Montana for the preceding calendar year divided by average agricultural freight rates outside Montana for the preceding calendar year. If average agricultural commodity freight rates in Montana are higher than average agricultural commodity freight rates charged outside Montana (the freight rate factor is greater than one), the market value would be the previous year's market value multiplied by the change factor multiplied by the freight rate factor.
3. In the event that rates in Montana are lower than those outside Montana (the freight rate factor is less than one), the freight rate factor would not be used in the calculation of assessed value.

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4. This bill does not specify an effective date. Therefore, it would become effective October 1, 2005. The valuation using the new freight rate factor would first be used for tax year 2006, affecting taxes to be paid in FY 2007. (See technical note 1.)
5. SB 315 passed by the 2003 Legislature commissioned a study comparing railroad freight rates in Montana and other states. Based on this study, the freight rate factor is estimated to be 1.6.
6. Under current law, railroad property affected by this bill is projected to have an assessed value of \$734.0 million in tax year 2006. Under this bill, the assessed value would be \$1,174.5 million (1.6 x \$734.0 million).
7. The class 12 tax rate is projected to be 3.69% for tax year 2006. Under current law, the taxable value of railroad property affected by this bill would be \$27.086 million. Under this bill, the taxable value would be \$43.338 million.
8. The following table shows projected state and local property taxes on railroad property affected by this bill under current law, with this bill, and the difference.

	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
State General Fund	\$2,560,000	\$4,128,000	\$1,548,000
University System	\$163,000	\$260,000	\$97,000
Local Government & Schools Districts	\$10,224,000	\$16,359,000	\$6,135,000

9. This bill would have no administrative impacts on the Department of Revenue.

FISCAL IMPACT:

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
<u>Revenues:</u>		
General Fund (01)	\$0	\$1,548,000
State Special Revenue (02)	\$0	\$97,000

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$0	\$1,548,000
State Special Revenue (02)	\$0	\$97,000

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

This bill would increase county, local government, and school district revenue by \$6,135,000 in FY 2007.

LONG-RANGE IMPACTS:

As long as rail rates for agricultural commodities are higher than in surrounding states, the assessed value of affected railroad property would grow geometrically. If the freight rate factor stays at 1.6, the assessed value in tax year 2007 (FY 2008) would be 2.56 times what it would be under current law (1.6 x 1.6). Assessed value would be 4.096 times higher in tax year 2008 (FY 2009) and 6.5536 times higher in tax year 2009 (FY 2010). (See technical note 3.)

TECHNICAL NOTES:

1. Because it does not have an effective date or applicability date, this bill would become effective October 1, 2005. This fiscal note assumes that it applies to the first tax year beginning after October 1, 2005. Adding an effective date and an applicability date would clarify this.

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2. The terms “average agricultural commodity freight rate charged by the railroad for shippers in Montana” and “average agricultural commodity freight rate charged by the company for shippers outside of Montana” play crucial roles in this bill but are not defined.
3. As this bill is written, the “freight rate factor” increases the growth rate of a railroad’s assessed value. This has two consequences. First, as long as a railroad’s freight rates are higher in Montana, its assessed value will grow geometrically, as illustrated under long-range impacts. Second, any increase in assessed value because of higher Montana freight rates would be permanent. If a railroad decreased its Montana freight rates so that they were the same as or lower than its rates in other states, the growth rate of the railroad’s assessed value would decrease, but the growth rate would be applied to a higher base. If the intent of this bill is to provide an incentive for railroads to charge the same rates in Montana as in other states, multiplying the “freight rate factor” by the assessed value rather than by the growth rate of the assessed value would provide a positive incentive for reducing rates as well as a negative incentive for having high rates.